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COMMONWEALTH OF VIRGINIA, ex rel.

PEGGY BUSKILL, et al.

v.

CASE NO. PUE000172

**PELHAM MANOR WATER SUPPLY
COMPANY, INC.**

REPORT OF HOWARD P. ANDERSON, JR., HEARING EXAMINER

January 10, 2001

HISTORY OF THE CASE

Pursuant to the Small Water or Sewer Public Utility Act (§§ 56-265.13:1, et seq. of the Code of Virginia), Pelham Manor Water Supply Company, Inc. (“Pelham Manor” or “Company”) notified its customers by letter dated February 15, 2000, of its intent to increase its charges for water service effective April 1, 2000. On March 14, 2000, the Commission’s Division of Energy Regulation received a petition signed by approximately 65% of the Company’s customers objecting to the proposed rate increase and requesting a hearing. On April 6, 2000, the Commission issued a Preliminary Order suspending the Company’s proposed rates for sixty days, and declaring the proposed rates subject to refund with interest.¹ In that Order, the Commission also directed the Company to file certain financial information on or before May 1, 2000.

On May 2, 2000, the Company filed a request for an extension to May 17, 2000, to file its financial data. The Commission granted the extension and continued the case generally by Order dated May 12, 2000.

On June 23, 2000, the Commission issued an Order for Notice and Hearing in which it established a procedural schedule and set this matter for hearing on October 3, 2000; assigned a Hearing Examiner; ordered the Commission’s Staff to investigate the reasonableness of the Company’s proposed tariff; and provided public notice requirements.

The hearing was convened on October 3, 2000, as scheduled. C. Meade Browder, Jr., Esquire, appeared as counsel for the Commission Staff. David K. Travers, president of Pelham Manor, appeared *pro se*. There were no public witnesses or protestants. The Company did not

¹Subsequent to the Commission’s Preliminary Order of April 6, 2000, the Commission learned that the Company had already rendered bills for service effective April 1, 2000, at the proposed rates. The Commission, in its order of June 23, 2000, allowed the proposed rates to take effect without a period of suspension. The proposed rates remain interim and subject to refund.

prefile testimony. Mr. Travers testified at the hearing that he personally delivered notices to each customer and to the county administrator.² A copy of the transcript is filed with this Report.

SUMMARY OF THE EVIDENCE

Pelham Manor is located in Culpeper County and serves 73 unmetered water connections as of December 31, 1999, the end of the test year. There is one vacant residence that is connected to the system. The Company's proposed flat rates for water service are as follows:

	Current	Proposed
Occupied residences	\$21.00	\$26.00
Vacant residences	\$15.00	\$20.00

Staff witness Armistead conducted an investigation of the Company's financial records and concluded that the proposed rates are justified and reasonable. Mr. Armistead made the following adjustments:

- Staff annualized the Company's revenues based on the number of connected customers at the end of the test year. This adjustment increased revenues by \$696.00.
- Staff annualized various expenses that the Company did not reflect on its books. For instance, the Company utilized Internet services, local telephone services, and services for a cellular phone. Mr. Travers operates six other water companies; therefore, Staff prorated a portion of these expenses to Pelham Manor. Further, the bank service fee increased from \$4.00 to \$8.00 per month during the pro forma period. The total of these services resulted in an increase of \$339.00 in expense for Pelham Manor.
- Staff decreased Pelham Manor's cost of service by \$55.00 to reflect elimination of electric expense attributable to one of Mr. Travers' other water companies.
- Based on information provided by Mr. Travers, Staff reduced Pelham Manor's insurance expense by \$36.00. Staff assigned a pro rata portion of the annual automobile insurance premium to Pelham Manor.
- Based on a discussion with Mr. Travers, Staff reduced Pelham Manor's management fee expense by \$590.00. Mr. Travers will be performing work previously done by outside contractors. Although some work will be performed by outside contractors, it will be at a reduced rate.
- Staff eliminated all meals expense as inappropriate for ratemaking purposes. This adjustment reduced expenses by \$102.00.

²Tr. 34, 35.

- Based on information submitted by the Company, Staff amortized rate case expenses of \$5,380.00 over three years. This increased the Company's cost of service by \$1,793.
- The Company did not book any depreciation expense for the test year. Based on the Commission's 3% composite rate for depreciation on year-end plant balances, Staff allowed \$251.00 in test year depreciation expense.³
- The Company booked \$389.00 in annualized gross receipts and special taxes. Staff calculated an expense of \$392.00, thereby increasing the Company's expenses by \$3.00.
- During its on-site audit Staff determined that the office furniture, propane heater, and computer equipment were actually improvements to Mr. Travers' private residence. Staff disallowed all costs associated with these items.

I find that Staff's adjustments are reasonable and should be adopted. Further, based on Staff's audit, I find that revenues of \$23,016.00 for Pelham Manor are appropriate. This will provide operating income of \$6,589.00.

Mr. Armistead also made several recommendations that I find should be adopted:

- The Company should depreciate plant at a three percent composite rate and restate plant in service and accumulated depreciation to the proper level as of December 31, 1999.
- The Commission should order the Company to maintain sufficient property records and documentation to support all capital improvements including labor costs.
- In Case No. PUE960129, the Commission ordered the Company to file an annual financial and operating report. This report was to include a cash flow statement and a summary of capital improvements made during the report year and improvements planned for the upcoming year. To date, this report has not been filed for the years 1997-1999. The Commission should order the Company to file any outstanding reports.
- The Company is in the process of updating its plant to comply with Virginia Department of Health ("DOH") standards. The Commission should order the Company to apply any funds remaining after operating expenses have been met to improve the water system to comply with DOH standards.

Staff witness Tufaro notes the petition received from Pelham Manor customers states that, with the exception of a replacement pump for one of the wells, no other capital improvements have

³Staff's adjustment to plant in service amounted to \$12,506.00.

been made. While Mr. Tufaro confirms this statement as correct, he points out that the Company has invested in excess of \$12,000.00 in engineering and survey fees in an effort to upgrade the level of service provided to the customers.⁴ The fact that the customers are largely unaware of this

⁴Ex. No. MAT-2, at 5.

investment indicates that the Company should make a better effort to communicate with them. If the customers are aware of the capital improvements made to the system, they should better understand the impact on their rates.

FINDINGS AND RECOMMENDATIONS

Based on the evidence in this case, I find that:

1. The test year ending December 31, 1999, is proper in this proceeding;
2. The Staff's accounting adjustments are just and reasonable and should be adopted;
3. The recommendations set forth above should be approved;
4. The Company's proposed rates should be approved;
5. The Company's test year operating revenues, after all adjustments, were \$18,576.00;
6. The Company, after the proposed increase of \$4,440.00, should have operating revenues of \$23,016.00;
7. The Company's test year operating revenue deductions, after all adjustments, were \$16,333.00;
8. The Company's test year operating income, after all adjustments, was \$2,243.00;
9. The proposed increase should afford the Company an annual operating income of \$6,589.00;
10. The Company's rate base, after all adjustments, is \$23,928.00;
11. The Company requires additional gross annual revenues of \$4,440.00 to earn a return on rate base of 27.54%;⁵ and
12. The Company's books should conform to the Uniform System of Accounts for Class C Water Companies.

⁵While this rate of return appears high, the actual increase is modest and the water system is an older system in need of attention. (Tr. 33).

Accordingly, ***I RECOMMEND*** the Commission enter an order that:

1. ***ADOPTS*** the findings contained in this Report;
2. ***GRANTS*** the Company an increase in gross annual revenues of \$4,440.00; and
3. ***DISMISSES*** this case from the Commission's docket of active cases.

COMMENTS

The parties are advised that any comments (Section 12.1-31 of the Code of Virginia and Commission Rule 5:16(e)) to this Report must be filed with the Clerk of the Commission in writing, in an original and fifteen (15) copies, within thirty (30) days from the date hereof. The mailing address to which any such filing must be sent is Document Control Center, P.O. Box 2118, Richmond, Virginia 23218. Any party filing such comments shall attach a certificate to the foot of such document certifying that copies have been mailed or delivered to all counsel of record and any such party not represented by counsel.

Respectfully submitted,

Howard P. Anderson, Jr.
Hearing Examiner